

Message Text

CONFIDENTIAL

PAGE 01 BONN 05680 01 OF 02 291936Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 DOE-15
SOE-02 ACDA-12 OES-07 /137 W
-----026543 291946Z /43

R 291906Z MAR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7140
INFO AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY THE HAGUE
AMEMBASSY ROME
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 BONN 05680

USOECD, USEEC, USMTN

E.O. 11652: GDS
TAGS: EGEN, EFIN, ETRD, MNUC, TECH, GW
SUBJ: CALL ON FRG ECONOMICS MINISTER, COUNT LAMBSDORFF

1. SUMMARY: DURING MARCH 28 CALL ON COUNT LAMBSDORFF,
OUR DISCUSSION RANGED OVER ECONOMIC ISSUES OF MUTUAL
CONCERN. LAMBSDORFF CHARACTERIZED GERMAN GROWTH POLICY
AS REALISTIC, BUT INDICATED WILLINGNESS TO RETHINK
SITUATION, SHOULD INDICATORS SUGGEST GROWTH TARGETS NOT
BEING MET. ON THE DOLLAR EXCHANGE RATE, LAMBSDORFF
ASKED THAT I MAKE CLEAR TO ALL IN WASHINGTON, THAT
NEITHER HE NOR THE CHANCELLOR HAD EVER ASKED US TO
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PAGE 02 BONN 05680 01 OF 02 291936Z

INTERVENE IN EXCHANGE MARKETS TO SUPPORT ANY PARTICULAR
RATE FOR THE DOLLAR. LAMBSDORFF AGREED THAT OUR ROLE
AND ROLE OF FRG SHOULD BE LIMITED TO PREVENTING
DISORDERLY MARKET CONDITIONS. ON NUCLEAR NON-
PROLIFERATION ACT, I STRESSED URGENCY OF TIMELY
ACTION BY EC. LAMBSDORFF PERSONALLY FAVORS THIS,
BUT GERMAN GOVERNMENT HAS NOT YET TAKEN A POSITION.

ON FRENCH DRAFT TREATY ON ILLICIT PAYMENTS, (STATE 75523), LAMBSDORFF INDICATED GENERAL GERMAN SUPPORT FOR FRENCH, BUT EXPRESSED SURPRISE THAT US COULD ACCEPT THIS APPROACH. ON MTN, LAMBSDORFF SAID THAT GERMANS FAVORED MAXIMUM FLEXIBILITY AND WERE URGING HAFERKAMP TO USE HIS NEGOTIATING MANDATE TO ITS MAXIMUM, EVEN EXCEEDING IT, IF NEED BE. I WILL REPORT SOME INTERESTING OBSERVATIONS ON INTERNAL GERMAN POLITICS IN SEPTTEL. END SUMMARY.

2. I BEGAN BY ALLUDING TO PRIME MINISTER CALLAGHAN'S RECENT VISIT TO WASHINGTON, AND TO PREPARATIONS FOR THE FORTHCOMING SUMMIT, WHICH HENRY OWEN WILL BE PREPARED TO DISCUSS WHEN HE COMES TO BONN. LAMBSDORFF OBSERVED THAT CALLAGHAN'S POSITION WAS DIFFERENT FROM THAT OF THE GERMAN GOVERNMENT. CALLAGHAN MUST PREPARE HIMSELF FOR FORTHCOMING ELECTIONS, AND DENNIS HEALEY ON BUDGET DAY WILL BE PROPOSING TAX CUTS TO STIMULATE THE ECONOMY. BRITISH ARE ASKING OTHERS TO HELP THEM, BUT FOR THE TIME BEING, THE FRG IS NOT PREPARED TO TAKE FURTHER STIMULATIVE MEASURES. THE LAST QUARTER OF 1977 WAS A GOOD ONE BY ANY STANDARD. IT IS TOO EARLY TO TELL HOW THE FIRST QUARTER OF 1978 WILL TURN OUT, ALTHOUGH THE JUST-PUBLISHED REPORTS OF THE GERMAN ECONOMICS INSTITUTES ARE PESSIMISTIC. GROWTH TARGET OF 3.5 PERCENT IS A REALISTIC ONE; SHOULD THE INDICATORS
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PAGE 03 BONN 05680 01 OF 02 291936Z

SUGGEST THAT IT NOT BEING MET, GOVERNMENT WOULD BE PREPARED TO RETHINK ITS POSITION. IN THIS CONNECTION, HOWEVER, IT IS EXTREMELY IMPORTANT NOT TO GIVE ANY HINT OF CHANGE UNTIL METAL WORKERS STRIKE IS SETTLED. THIS INDUSTRY IS BELL WETHER FOR GERMANY AND EFFECTS OF STRIKE ARE BEGINNING TO BE FELT ON PRODUCTION AND GROWTH.

3. I OBSERVED THAT CONCERN IS BEGINNING TO MOUNT IN WASHINGTON ABOUT POSSIBLE NEW WAVE OF INFLATION IN U.S. -- LAMBSDORFF INTERJECTED "THANK GOD" -- AND THAT NEW ANTI-INFLATIONARY MEASURES SEEMED DEFINITELY IN THE CARDS. LAMBSDORFF STRESSED SIGNIFICANCE OF SUCH MEASURES AND SAID THAT CHAIRMAN MILLER'S TESTIMONY ON THIS SCORE WAS PARTICULARLY GOOD. MILLER, IN HIS JUDGMENT, WAS IMPRESSIVE AND HAD MADE AN EXCELLENT START. HE CONTINUED THAT GERMANS BASIC CONCERN HAD ALWAYS BEEN U.S. CURRENT BALANCE. U.S. ACTION ON ENERGY WOULD BE OF GREAT PSYCHOLOGICAL IMPORTANCE IN ITS SHORT TERM IMPACT, AND OF CONSIDERABLE PRACTICAL IMPORTANCE IN ITS MEDIUM AND LONG-TERM EFFECTS.

4. IN RESPONSE TO MY QUESTION ON THE DOLLAR/DM EXCHANGE RATE AGREEMENT, LAMBSDORFF SAID THAT THE AGREEMENT IS FINE AND WORKING WELL; THE WAY IT WAS ANNOUNCED WAS ANOTHER MATTER. HE WANTED TO MAKE ONE POINT VERY CLEAR, SINCE SOME PEOPLE IN WASHINGTON WERE SAYING THE

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 05680

USOECD, USEEC, U

OPPOSITE. NEITHER HE NOR CHANCELLOR SCHMIDT HAD EVER SUGGESTED THAT THE UNITED STATES INTERVENE TO DEFEND ANY PARTICULAR EXCHANGE RATE FOR THE DOLLAR. BOTH COMPLETELY AGREED THAT INTERVENTION SHOULD BE LIMITED IN ITS GOAL TO THE PREVENTION OF DISORDERLY MARKET CONDITIONS.

5. I THEN REMINDED LAMBSDORFF THAT CONGRESS HAD PASSED AND THE PRESIDENT HAD SIGNED THE NUCLEAR NON-PROLIFERATION ACT. THIS CONTAINED A VERY TIGHT TIME-

TABLE. I STRESSED THAT THE IMPORTANT POINT WAS THAT
THE PROCESS BEGIN WITH A NOTICE OF INTENT TO
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PAGE 02 BONN 05680 02 OF 02 291938Z

NEGOTIATE BY APRIL 9. THE NEGOTIATIONS THEMSELVES
NEED NOT BE CONCLUDED BY ANY PARTICULAR DATE, BUT CAN
BE CARRIED OUT OVER A TWO YEAR PERIOD AND, IF NOT
CONCLUDED BY THEN, CAN BE CONTINUED FURTHER. LAMBSDORFF
SAID THAT HE HAD NO PARTICULAR PROBLEMS WITH THIS
APPROACH. SPEAKING PERSONALLY, HE FAVORED AN EARLY
INITIATION OF SUCH TALKS, BUT THE GERMAN GOVERNMENT
HAD NOT YET TAKEN A STAND AND THE DECISION, OF
COURSE, WAS ONE FOR THE EC COMMISSIONERS. HE RECOGNIZED
IMPORTANCE OF NUCLEAR ENERGY TO GERMANY AND GERMAN
INDUSTRY. ON BASIS OF GEISEL VISIT, HE BELIEVED MOST
SERIOUS DIFFICULTIES U.S. NUCLEAR POLICY WOULD
ENCOUNTER WOULD BE IN 3RD AND 4TH WORLD WHERE THIS BEING
INTERPRETED AS A NEW FORM OF IMPERIALISM.

6. ON MTN, HE HAD WRITTEN BOB STRAUSS TO EXPRESS HIS
DISAPPOINTMENT AT U.S. OFFER. HE RECOGNIZED THAT EC
HAD SUBMITTED A LONG EXCEPTION LIST FIRST, AND THAT
U.S. LIST HAD BEEN IN RESPONSE. HOWEVER, HE COULD NOT
SEE MUCH USE TO AN AGREEMENT WHICH WAS FORTHCOMING
AND GENEROUS IN ITS BODY, BUT THEN VITIATED ITS
GENEROSITY BY A LONG LIST OF EXCEPTIONS IN AN ANNEX.
THE FRG HAS URGED THAT HAFERKAMP USE HIS NEGOTIATING
MANDATE WITH A MAXIMUM AMOUNT OF FLEXIBILITY. IF HE
WENT BEYOND IT, THEY WOULD BE PREPARED TO BACK
HAFERKAMP, AS HAD BEEN THE CASE WITH THE TEXTILE
NEGOTIATIONS.

7. I OUTLINED OUR CONCERN OVER PROBLEM OF ILLICIT
PAYMENTS AND OUR BELIEF THAT FRENCH TREATY INITIATIVE
WAS A POSITIVE ELEMENT WHICH COULD BREAK IMPASSE ON
THIS ISSUE. I INDICATED THAT FRENCH PROPOSAL, WITH
SOME BROADENING ELEMENTS WAS VERY MUCH WORTHY OF FRG
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PAGE 03 BONN 05680 02 OF 02 291938Z

SUPPORT. LAMBSDORFF EXPRESSED SOME SURPRISE. HE SAID
THAT HE UNDERSTOOD FRAU STEEG, IN REPORTING ON
PROPOSAL, TO SAY THAT WHILE FRG COULD GO ALONG WITH
FRENCH, USG COULD NOT ACCEPT FRENCH IDEA. HE PROMISED
TO CONTACT FRAU STEEG TO MAKE SURE HE HAD UNDERSTOOD
HER CORRECTLY AND BE IN FURTHER TOUCH WITH US.

8. THE CONVERSATION TURNED TO DOMESTIC POLITICS, ON
WHICH I WILL REPORT SEPARATELY.
STOESSEL

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